STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

FOCAL COMMUNICATIONS CORPORATION OF ILLINOIS	)	
Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Illinois Bell Telephone Company d/b/a Ameritech Illinois	)	Docket No. 00-0027

VERIFIED STATEMENT

OF

DR. KENT A. CURRIE

On Behalf of
AMERITECH ILLINOIS

February 7, 2000

OFFICIAL FILE
ILL. C. C. DOCKET NO. 00-0027
Ameritech Exhibit No. 4
Witness
Date 3-16-00 Reporter CB

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kent A. Currie. My business address is 45 Erieview Plaza, Cleveland, Ohio 44114.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SBC as Associate Director, Cost Analysis and Regulatory.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES IN THAT POSITION?

A. I took on my current responsibilities in the new SBC cost organization at the end of January 2000. In this role I am primarily responsible for cost study methods for switching services, including reciprocal compensation. Consequently, my responsibilities are similar to my previous position at Ameritech, where I was responsible for developing and maintaining the methodological framework for economic cost studies for Ameritech's telecommunications services. These cost methods are used in many studies such as Long-Run Service Incremental Cost ("LRSIC") studies, Total Service Long-Run Incremental Cost ("TSLRIC") studies, Total Element Long-Run Incremental Cost ("TELRIC") studies, universal service cost studies including Forward-Looking Economic Cost ("FLEC") studies and avoided cost studies. In order to monitor the application of these methods, I direct, supervise, and prepare studies using these methods. In addition, my responsibilities have included the internal and external dissemination of Ameritech's policy regarding studies using these methods and related issues.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I received a Ph.D. in economics from the University of Iowa in 1973. In addition, I have a Master of Science degree in economics from the University of Iowa, and a Bachelor of Science degree in mathematics from Bradley University. I specialize in microeconomic theory and industrial organization, concentrating in public utility economics. After completing my graduate studies, I held full-time teaching and research appointments at two engineering universities.

Q. PLEASE BRIEFLY DESCRIBE YOUR TELECOMMUNICATIONS WORK EXPERIENCE.

A. I began my telecommunications career in 1980 at Ohio Bell. I have performed, contributed to, and supervised many cost analyses dealing with the complete range of services offered by Ameritech. My responsibilities have included the development and monitoring of cost methods used in service cost studies at Ohio Bell. Since the divestiture of the Bell System, I have participated in the coordination and development of these responsibilities across Ameritech.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSION?

A. I have testified on cost and other economic issues in regulatory proceedings before the Indiana Utility Regulatory Commission in Cause Nos. 39705 and 40785-S1, the Public Utilities Commission of Ohio in Case Nos. 96-1057-TP-UNC, 96-1027-TP-CSS, 96-922-

TP-UNC, 96-888-TP-ARB, 96-752-TP-ARB, 96-694-TP-ARB, 93-487-TP-ALT, 90-471-TP-ATA, 90-467-TP-ATA, 84-1435-TP-AIR, and 83-300-TP-AIR, and the Public Service Commission of Wisconsin in Dockets 05-TI-160 and 6655-NC-101.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to refute certain inaccurate characterizations made by Mr. Michael Starkey of Ameritech Illinois' costs for handling internet-bound calls. In addition, I will clarify Mr. Starkey's misunderstanding surrounding the cost to Ameritech of providing additional lines to its customers.

Q. PLEASE DESCRIBE THE VIEW OF THE NATURE OF CALLS DIRECTED TO ISPs EXPRESSED IN MR. STARKEY'S TESTIMONY.

A. Throughout his testimony, Mr. Starkey asserts that calls directed to Focal's ISP customers are no different from local calls made to Ameritech's business or residential end user customers. On p. 20 of his testimony, Mr. Starkey claims that "calls directed to ISPs are functionally identical to local voice calls for which Ameritech agrees to pay termination charges." Again on p. 24 he states that "[t]raffic originated on the Ameritech network and directed to Focal's local ISP customers is no different, either from a technical or cost basis, than other types of traffic for which Ameritech has agreed to provide reciprocal compensation."

Q: DO YOU AGREE WITH MR. STARKEY'S ASSESSMENT OF THE NATURE OF ISP CALLS?

A: No. Mr. Starkey repeatedly underestimates call duration or holding time as a fundamental distinguishing characteristic of calls directed to ISPs. As Ameritech witness Eric Panfil points out, in Illinois the holding time of ISP calls average 26 minutes compared to less than 3.5 minutes for local calls directed to business and residential customers. Though portions of ISP and local calls are routed over the same Ameritech facilities, the fact that ISP call duration is over seven times longer than the average non-ISP local call is a significant and critical distinction in the accurate measurement of the underlying costs.

Q: DOES CALL DURATION AFFECT THE COST OF "TERMINATING" ISP CALLS VERSUS TERMINATING TYPICAL LOCAL CALLS?

A: Yes, of course it does. The costs of handling either ISP calls or local calls are driven by two characteristics of such calls: frequency and duration. The number of calls measures frequency, while minutes measure duration, *i.e.*, the holding time of calls. Based on this distinction, Ameritech's end-office switching costs of handling such calls are split into setup costs and duration costs. The network setup activities for "terminating" a call on an end-office switch include the signaling network request for a communications path needed to terminate the call, the establishment of this path for the duration of the call, and, finally, the release of this path once the call has ended. Also, the end-office switch will record the beginning time and the ending time of the call. After the call has ended,

this measurement information is processed for each call. Ultimately, a bill is rendered for these calls, which also generate some billing inquiries from customers. All of these network and non-network activities comprise setup activities. Ameritech incurs the same setup costs for a message that lasts one minute as for a message that lasts one hour, *i.e.*, setup costs do not vary with the duration of a call. Since setup costs occur once for each message, these costs are developed on a per-message basis, while duration costs are developed on a per-minute basis.

Because Ameritech Illinois' reciprocal compensation rate structure is currently on a per-minute basis, the per-call setup costs are converted to a per-minute cost and combined with a per-minute duration cost to establish a composite per-minute compensation charge to cover both setup and duration costs. Given the existing per-minute rate structure, the per-call setup cost is converted to a per-minute cost using the average duration of a local call, which is typical for calls that originate on CLECs' networks and terminate on Ameritech Illinois' network. Based on the costs that Ameritech Illinois provided in Docket Nos. 96-0486/96-0569 to comply with the Commission's Second Interim Order issued on February 17, 1998, this converted setup cost is significantly larger than the per-minute duration cost. Consequently, this composite per-minute cost is significantly larger than if the conversion were based on the much longer holding times that characterize Internet access calls.

Q: WHAT WOULD BE A MORE ACCURATE WAY TO IDENTIFY END OFFICE SWITCHING COSTS FOR INTERNET ACCESS CALLS?

A: A more accurate rate structure would keep setup costs separate from duration costs. However, if the existing rate structure is used, then the melding of setup costs with duration costs should be based on the best estimate of holding times for this type of traffic terminating on Focal's network. Mr. Panfil has estimated the average Internet call to be 26 minutes in length. Consequently, a composite per-minute cost for average Internet calls should be based on this average holding time.

Q: ON PP. 39 – 41 OF HIS TESTIMONY, MR. STARKEY CONTENDS THAT AMERITECH SHOULD CONSIDER REVENUE FROM ADDITIONAL LINES TO OFFSET OVERPAYMENTS OF RECIPROCAL COMPENSATION TO CLECs. PLEASE EVALUATE HIS ARGUMENTS.

A: Mr. Starkey starts by assuming that Ameritech incurs lower costs providing additional lines than it does for the first. He presumes that Ameritech meets its entire demand for additional lines by simply deploying otherwise unused spare loop capacity "with little or no capital investment." Mr. Starkey's discussion is disheartening because of his lack of carefully distinguishing between types of costs. Consequently, his discussion disregards the history of developing LRSICs and TELRICs and their use before this Commission.

TELRICs have been designated by this Commission as the appropriate costs to be used for developing unbundled network element prices. Similarly, LRSICs have been

designated by this Commission as the appropriate costs to be used to support retail pricing. In simple terms, both TELRICs and LRSICs are based on an *average* long-run cost methodology. That is, the LRSIC of a network access line is calculated by dividing the total forward-looking cost of all lines, including spare capacity, required at any point in time by the total demand for lines at that same point in time. Because of the use of an average cost methodology, there is no distinction between the cost of a second line and the cost of a first line: the LRSIC is based on the average cost of all lines.

Mr. Starkey seems to claim that Ameritech's true costs of providing service over a second line should be calculated with reference to a short-run cost methodology, because the costs of spare capacity are included in the TELRIC/LRSIC cost development. Aside from being inconsistent with rules and decisions of this Commission, this approach is flawed because it assumes that second lines can be perpetually served out of existing spare capacity, without any need in the long run for maintaining required levels of spare capacity. They cannot. As demand grows, the network must be reinforced with additional used capacity and additional spare capacity. Indeed, even on a short-run basis, Mr. Starkey's claim is flawed because it incorrectly assumes that spare capacity is readily available at all times and in all places. That is simply not the case.

Q: DO YOU AGREE WITH MR. STARKEY'S CHARACTERIZATION OF SLCs FOR ADDITIONAL LINES AS BEING A "LARGE WINDFALL" FOR AMERITECH?

A: Most certainly not. Mr. Starkey argues that Ameritech receives higher Subscriber Line Charge (SLC) revenues for additional lines. It is true that the interstate SLC or End User Common Line (EUCL) charge for additional lines is higher than that for first or primary lines. However, network access line and EUCL revenues for primary lines do not cover the LRSICs for these lines along with a reasonable allocation of joint and common costs. As one would suspect, the higher non-primary line EUCL charge means that second lines cover a larger share of joint and common costs than do primary lines, but not necessarily mean that all these costs are covered, much less that there is any surplus. Therefore, it is a complete mischaracterization by Mr. Starkey to describe the SLC on additional lines as a "large windfall" to Ameritech, and a means for Ameritech to absorb losses from net losses attributable to an inefficient compensation structure.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes.